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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY (U60W), a corporation, for an order authorizing it to increase rates charged for water service in its Chico District by \$6,380,400 or 49.1% in July 2008, \$1,651,100 or 8.5% in July 2009, and by \$1,651,100 or 7.9% in July 2010; in its East Los Angeles District by \$7,193,200 or 36.5% in July 2008, \$2,034,800 or 7.6% in July 2009, and by \$2,034,800 or 7.0% in July 2010; in its Livermore District by \$3,960,900 or 31.2% in July 2008, \$942,200 or 5.6% in July 2009, and by \$942,200 or 5.4% in July 2010; in its Los Altos-Suburban District by \$5,172,500 or 30.5% in July 2008, \$1,189,100 or 5.4% in July 2009, and by \$1,189,100 or 5.1% in July 2010; in its Mid-Peninsula District by \$5,435,100 or 23.7% in July 2008, \$1,634,200 or 5.8% in July 2009, and by \$1,634,200 or 5.5% in July 2010; in its Salinas District by \$5,119,700 or 29.8% in July 2008, \$3,636,900 or 16.3% in July 2009, and by \$2,271,300 or 8.7% in July 2010; in its Stockton District by \$7,474,600 or 29.0% in July 2008, \$1,422,400 or 4.3% in July 2009, and by \$1,422,400 or 4.1% in July 2010; and in its Visalia District by \$3,651,907 or 28.4% in July 2008, \$3,546,440 or 21.3% in July 2009, and by \$3,620,482 or 17.6% in July 2010.

Application 07-07-001
(Filed July 3, 2007)

**THIRD RULING OF ADMINISTRATIVE LAW JUDGE SEEKING ADDITIONAL
INFORMATION REGARDING CALIFORNIA WATER SERVICE COMPANY'S
2007 GENERAL RATE CASE**

To California Water Service Company:

Within 30 days of issuance of this ruling, please file and serve responses (and, where requested, serve documents) in response to the questions in Appendix A about the testimony supporting your General Rate Case application. If you need clarification of any question in this ruling, please email the Administrative Law Judge and the service list in advance of the due date rather than trying to guess at what the question means.

Repeat the question before giving each response.

IT IS SO RULED.

Dated October 19, 2007, at San Francisco, California.

/s/ SARAH R. THOMAS

Sarah R. Thomas
Administrative Law Judge

APPENDIX A

1) Salinas District

i) Formal Application – Workpapers

(a) WP 6-B1. What is the Water Awareness Committee of Monterey County?

(b) California Water Service Company, Salinas, Advance Capital Budget, 2007 (page 5 of 16), 2008 (page 10 of 16), and 2009 page 14 of 16. You plan to replace several vehicles based on a standard formula. Is that formula appropriate given the current durability of vehicles?

ii) Project Justifications

(a) Table of Contents

1. Page 1. Provide further justification of the need for a new customer service center (\$4,320,000), and accompanying furnishings (\$259,200). See questions re Tab 26 below.
2. Page 3. Provide further justification of the need to acquire property for a new customer center and operation center office and yard (\$5,670,000, project #00011478). See questions re Tab 26 below.

(b) Tab 4 *et seq.* Provide the name/title of preparer for each job that does not have one.

(c) Tab 5. Why was the budget accommodated to a 1-million gallon tank if a 1.5 million gallon tank was needed/installed?

(d) Tab 6. Is the 1 million gallon tank discussed here different from tank discussed at Tab 5? Were two tanks needed/installed?

(e) Tab 16. Does this project duplicate/overlap with those at Tabs 15 and 28? Why are leaks not documented, and how does the District Manager estimate leaks without such documentation?

(f) Tab 17. No materials included behind this tab; was this intentional?

- (g) Tab 21. The back-up documentation does not appear to relate to iron/manganese treatment. Please provide relevant documentation to justify the \$743,300 expense.
- (h) Tab 22.
 - (i) This tab provides a helpful Water Supply Assessment for a small part of Monterey County. Do such assessments exist for the eight districts covered by the current GRC? If so, describe.
 - (ii) On page 13 of the Assessment, you state that "in Cal Water districts where [conservation and best management practices] have been actively promoted, Cal Water has been able to reduce projected water demand by 10%." To which districts do you refer?
 - (iii) On page 14 of the Assessment, you state that "upon transfer of ownership of the Rancho Los Robles water system to Cal Water by the developer, the water system will be incorporated into Cal Water's capital improvement program." When will the transfer occur? Are you requesting the funding under this Tab now, or at transfer?
 - (iv) On page 15 you identify a May 2005 Master Water Supply and Facilities Plan. Please furnish a copy if you have not done so already, or a citation to where the copy appears if you have done so.
 - (v) On page 18 you state that "the Rancho Los Robles development would result in a net positive reduction of consumptive groundwater use...." It seems counterintuitive that a new development would reduce groundwater use; explain.
- (i) Tab 23. Please furnish a copy of the "Feasibility Study for Long-Term Water Supply for the Salinas District," or a citation to where it appears in the record.
- (j) Tab 26. New customer service center. Have there been any incidents in which your employees have been victims of crime at the existing office? Describe. How long has the existing office been in the existing location?

- (k) Tab 27. The supporting documentation has nothing to do with the request for furnishings for the new office facility. Please provide supporting documentation.
- (l) Tab 32. The documentation states that Well 24.01 "is showing dramatic increase in nitrates in the last 3 years, and is expected to exceed the MCL in 2009 or 2010." Is there any way to trace the source of the dramatic increase in nitrates and mitigate it at the source? Explain.

iii) *Results of Operation and Prepared Testimony*

(a) Page 26.

- (i) State whether, as you assumed when you filed your application, the Spreckels Water Company contract has been discontinued. If not discontinued, explain how you allocate costs/revenues from the contract to ratepayers and unregulated operations.
- (ii) Explain the allocation of the Foothill Estates contract, and how it complies with the allocation requirement of D.03-09-021.
- (iii) Verify that the \$5,700 customer credit from the CWS Utility Services' ESP program is a total figure for Salinas. State how the allocation meets the allocation requirements of D.03-09-021.

- (b) Page 29. Explain your statement regarding Foothill Estates that, "No adjustment is made from general plant due to the insignificant nature of the contract."

2) Stockton District

i) *Formal Application – Workpapers*

- (a) WP 6-A1a. You show a charge for Institutional Advertising. See D.96-12-074, 70 CPUC 2d 88, 135-6, *quoted in* D.03-09-021, disallowing allocation of such expense to ratepayers. For all of the districts at issue in this GRC, please identify any Institutional Advertising expense charged to ratepayers, and either reallocate to shareholders or justify the current allocation.
- (b) WP 6-B1. Stockton District; Dues and Donations. Why are charges for "Business Leadership Summit" (\$5,000) and "San

Joaquin County/Dept of Public Works" (\$20,000) included in dues and donations, and why are they charged to ratepayers?

- (c) WP-8B1 - You plan to retire several vehicles. Is retirement appropriate given the current durability of vehicles? *See, e.g., California Water Service Company, Stockton, 2007 Advance Capital Budget, page 5 of 23 (proposing to replace vehicle with 34,000 miles on it). See also pages 13, 21 of 23.*
- (d) California Water Service Company, Stockton, 2007 Advance Capital Budget, pages 5-7 of 23. You list a charge of \$1,053,000 to construct a new customer service center, and \$162,000 for furnishings for the center. Provide further justification of the need for a new customer service center. You seek \$648,000 to continue construction of a new customer service center. State where the Commission approved the initial construction, when construction started, and amounts expended to date. *See also Stockton Carryover Projects, showing a charge of \$68,000 for architectural design of the new customer service center.*

ii) Project Justifications

(a) Table of Contents

- 1. Page 6. You request \$194,400 for furnishings for the new customer service center. *See questions in (2)(i)(d) above.*
- (b) Tab 1. You state that this project was the subject of a settlement with ORA. Did the settlement allow you to request the same amount in a subsequent GRC? Same question for Tabs 2, 3, 4, 5, 8 and 9. Are you seeking to carry out other projects in Stockton (or other districts) that were subject to settlement in an earlier GRC? If so, did the settlement provide simply for deferral of the project(s), or for foregoing the project(s) altogether? Explain.
- (c) Tab 6. You state that "The Stockton District has more leaks per mile of main than any other Cal Water District." Is there evidence of this fact, and can you explain why Stockton has this problem? How old is the "older unit" (vacuum truck)?
- (d) Tab 10. This tab seeks \$1,215,000 for the new customer service center. How many employees will occupy the new center? Are you pursuing "Adaptive Re-Use of the Existing Station One Building for A Customer Service Facility" (Scheme D), which is

identified as an option "worthy of serious consideration"? If not, why not?

- (e) Tab 11. The description states the contract has been awarded and work has already started. Is it permissible under Commission rules or precedent to seek funding for a project after the contract is awarded and the project work started? Cite the relevant authority for this proposition.
- (f) Tab 12. Page 3 identifies Cal Water's Continuous Improvement Process and Continuous Improvement Team. Provide a list of all projects that have been identified as a part of this process by the team. Do any of the projects seek to save costs for ratepayers? If so, identify them.
- (g) Tab 13. The Source Group, Inc. proposes a contract involving two days of work in the amount of \$20,594. This suggests they are being paid more than \$10,000 per day. This seems expensive; please explain the calculation.
- (h) Tab 17 (see also Tab 18). The Cal Water – 2006 Inspection Memo recommends that Cal Water contact the San Joaquin County Department of Environmental Health and arrange a plan and schedule for destroying the abandoned wells. Has this occurred? Explain.
- (i) Tabs 21, 22, 24, 25, 26, 27, 33, 34, 35, 36 and 37. The need for these projects is not well documented. Supplement the record to better justify the proposed expenditures.
- (j) Tab 28. Has anyone traced the source of the TCE plume? Is any mitigation of the plume occurring? Explain.

iii) *Results of Operation and Prepared Testimony*

- (a) Page 24. Is the referenced Report on Unregulated Operations in the record? If so, state where; if not, please produce it.
- (b) Page 36. If the Water Supply and Facilities Master Plan referred to here is already in the record, indicate where. If it is not, please produce a copy.
- (c) Page 37. Why were some projects cancelled, and others re-budgeted in future years. Did the Commission authorize such actions? Explain.

- (d) Page 43. The statement that "Cal Water cannot request recovery of an undercollected balance more than three years old" seems contradicted by the statement that "Cal Water requests to amortize this balance over two years...." Explain.

3) General Office

Formal Application – Workpapers (continued from First Ruling¹ filed September 11, 2007)

- (e) Were any of the new positions requested rejected/deferred in prior GRCs? If yes, provide a table showing the applicable positions, where they were rejected/deferred, and if rejected, your explanation for seeking them here.
- (f) Provide a Cal Water organization chart for its General Office operations.
- (g) WP5-B2a, page 4 of 4. What is the result of Purchase Orders not being issued for all purchases? You state that "In 2004, without a formal process, we incurred additional audit fees." Why do you base your testimony on 2004 rather than a more recent period? Under "Cost Accountant" you state that "there are variances that need to be analyzed on a monthly basis to insure that the Company and our rate payers are paying the proper amount for its water production costs." Have any errors been discovered in ratepayer charges? If so, detail them.
- (h) WP5-B2b, page 2 of 3. Did the KPMG work you discuss in this document reveal any problems in the company's financial or regulatory reporting that affected ratepayers? If so, give details. Page 3 of 3. Produce the referenced audit report issued by KPMG.

¹ *First Ruling of Administrative Law Judge Seeking Additional Information Regarding California Water Service Company's 2007 General Rate Case (First Ruling)*, filed September 11, 2007.

- (i) WP5-B2h, page 1 of 2. Explain the statement "The Company has not had a perfectly clean history regarding litigation" by identifying the litigation to which you refer, and the outcomes of that litigation. Page 2 of 2. You state that there are "unique risks to both the ratepayer and the stockholder." Are you allocating the cost of the requested position in part to shareholders? If not, explain. Did the Transit Casualty Company insolvency have any impact on Cal Water?
- (j) WP5-B2i, page 2 of 3. What are the 28 internal controls deemed to be deficient, and the seven significant deficiencies? Did any deficiency impact ratepayers? If so, explain.
- (k) WP5-B2k, page 1 of 2. You state that the Company's number of customers has increased from 425,700 to 443,500 (a 4.2% increase over the past 5 years). On page WP5-B2j, you state the increase to be 436,700 to 460,900 (a 6% increase over the past 5 years). Which is correct?
- (l) WP5-B2l, page 1 of 2. Of the responsibilities listed for this job, which benefit ratepayers? If some do not, explain how/whether you are planning to allocate part of the cost of this position to shareholders.
- (m) WP5-B2m, page 1 of 2. Of the responsibilities listed for this job, which benefit ratepayers? If some do not, explain how/whether you are planning to allocate part of the cost of this position to shareholders.
- (n) WP5-B2n, page 1 of 5. How do you currently handle emergencies? (Note that First Ruling asked another question about the 24-hour call center.)
- (o) WP5-B2p, page 1 of 2. Do you have in summary form data showing that the number of projects has tripled from what it was ten years ago, and doubled in the last five years. If so, please produce this data.
- (p) WP5-B2q, page 1 of 2. List all Water Supply and Facility Master Plans you have prepared for your water districts (including the General Office Allocation districts). You show a trend in capital projects as follows; provide a comparable figure for your 2007

request: "Cal Water had 1,187 approved capital projects in the 2003 budget, 1,480 in 2004, 1,584 in 2005 and 1,593 in 2006."

- (q) WP5-B2t, page 1 of 2. List all capital projects not completed by CWS due to lack of manpower, and their budgets.
- (r) WP5-B2v, page 1 of 4. You state you have 25 water systems. WP5-B2ad, page 1 of 8, says 27. Which is the correct figure?
- (s) WP5-B2x, page 2 of 3. You state in several places, including here, that your employees cannot be borrowed because they have no time to spare. Where in the company do you have excess capacity, where employees are, in your view, available to work on unregulated projects (e.g., ESP)? Give details.
- (t) WP5-B2ae, page 2 of 9. You assume that Title 22, Section 64449.5 of the California Code of Regulations requires flushing. Without referring to other materials, my reading of the statute indicates that flushing is one form of determining physical water quality. Explain your position that flushing is required by the regulation. Do you have material from DHS or other sources indicating flushing is required by the foregoing provision? If so, please produce it.
- (u) WP5-B2af, page 2 of 4. Have you discovered metering errors resulting in thousands of dollars of lost revenue per meter per month? Describe.
- (v) WP5-B2ah, page 3 of 3. This document lists employees eligible to retire in 2009, but several of them are recent hires. Are those hires actually eligible to retire? Further, have you polled the employees to assess retirement plans? Give details.
- (w) WP5-B2ak, page 1 of 9. When you proposed funding for the Safety Trainer to be hired in 2007, did you state that this employee would take care of 1/2 of the training program? Explain.
- (x) WP5-B2am, page 2 of 10. You state, "Currently Cal Water is at 6%." Does this 6% apply to the 15% for minority, 5% for women or 1.5% of disabled owned enterprises? Explain.
- (y) WP5-B2an, page 1 of 2. You state that under Sarbanes Oxley, "preferred vendor status is no longer the norm." Many of your districts have blanket contracts for capital projects. Are you now

rebidding these contracts in compliance with Sarbanes Oxley?
Explain.

- (z) Tab T8 A/B, California Water Service Company, General Office, Preliminary Advance Capital Budget. Are there more detailed justifications for the listed expenditures in the record? If so, cite them. If not, provide justifications similar to those in the green files accompanying the individual water district testimony for expenditures over \$100,000.
- (i) Page 5 of 26. Part of the GIS hardware/software is for Hawaii. Is this portion excluded from the cost to California ratepayers? If not, explain.
- (ii) Page 6 of 26. What is the Annual Program to Enhance and Add to Computer Network?
- (iii) Page 11 of 26. Why do the new proposed hires listed require company vehicles? Do all current employees in similarly compensated positions drive company-provided vehicles?
- (iv) Page 19 of 26. Why do you need to remodel the IS building (\$8,683,200)?

(END OF APPENDIX A)

INFORMATION REGARDING SERVICE

I have provided notification of filing to the electronic mail addresses on the attached service list.

Upon confirmation of this document's acceptance for filing, I will cause a Notice of Availability of the filed document to be served upon the service list to this proceeding by U.S. mail. The service list I will use to serve the Notice of Availability of the filed document is current as of today's date.

Dated October 19, 2007, at San Francisco, California.

/s/ LILLIAN LI

Lillian Li